

LJM

INVESTMENTS

October 24, 2000

To the Limited Partners:

This correspondence from the General Partner summarizes the investment activities of LJM2 Co-Investment, L.P. ("LJM2") during the month of September and early October as well as provides an update of other activities at LJM2.

Investment Portfolio

LJM2 closed and funded six new investments in September and early October and liquidated or partially realized four investments. In order to fund the new investments, the General Partner made two capital calls, totaling \$59.5 million. The funds were applied as follows:

<u>Sources (\$millions)</u>		<u>Uses</u>	
Capital Calls	59.5	Investments	98.8
Debt and Cash*	<u>39.3</u>		
Total	98.8		<u>98.8</u>

*Cash includes proceeds from realized investments.

New Investments

<u>Investment</u>	<u>Cost (\$millions)</u>
Raptor I (Follow On)	6.0
Raptor II (Follow On)	1.1
Raptor III	30.0
Raptor/TNPC	30.0
First Union CLO	25.2
Osprey II	<u>6.5</u>
Total	98.8

Realized Investments

<u>Investment</u>	<u>Cost (\$millions)</u>	<u>Cash Received</u>	<u>IRR</u>	<u>Cash Mult.</u>
Raptor I	29.5	40.3	156%	1.37
Raptor II	30.0	41.0	248%	1.37
Raptor/TNPC	30.0	39.5	2450%	1.32
Bargeco	<u>7.5</u>	<u>8.2</u>	30%	1.09
Total	97.0	129.0		

Current Partnership Summary (\$millions)

Investments	247.7
Capital Drawn	245.4
Debt	79.1
Undrawn Partners' Capital	148.6
Amount to be Distributed	99.0

Investment Portfolio

<u>Investment</u>	<u>Cost (\$ millions)</u>
ENA CLO: debt and equity	32.5
Resco	0.7
Rawhide	12.5
GECC Turbine	8.2
Raptor IA	6.0
Raptor IIA	1.1
Backbone	30.0
Margaux	10.0
TNPC	38.0
Osprey I	26.0
Osprey II	6.5
Zenith Telecom	21.0
Raptor III	30.0
First Union CLO	<u>25.2</u>
Total	247.7

New Investments

In exchange for an early settlement of the put, LJM2 made a follow on investment of \$6.0 million in **Raptor I** on September 19, 2000. LJM2 received \$41 million in cash when the put settled, representing the return of and on capital. LJM2 retains a residual interest in this investment.

In exchange for the early settlement of the put, LJM2 made a follow on investment of \$1.1 million in **Raptor II** on October 13, 2000. LJM2 received \$41 million in cash when the put settled, representing the return of and on capital. LJM2 retains a residual interest in this investment.

On September 15, 2000, LJM2 invested \$30 million in a replication of the Raptor I and II vehicles, **Raptor III**. The put on Enron stock, upon which LJM2 relies to receive its return of and on capital, has a strike price of \$68 and is due to expire 6 months after closing. LJM2 expects to receive \$41 million in cash when the put expires in March of 2001.

On September 28, 2000, LJM2 invested \$30 million in a structure similar to the other Raptor vehicles called **Raptor/TNPC**. The major difference in Raptor/TNPC is that the vehicle is capitalized with TNPC warrants instead of Enron stock. LJM2 has already received its return of and on capital when the IPO occurred for TNPC.

On September 29, 2000, LJM2 invested \$25.2 million in **First Union CLO**, a collateralized loan obligation (CLO) structure developed by First Union with the assistance of LJM2. The portfolio has a higher diversity, higher weighted average credit rating and better risk-adjusted spread than the collateral for a typical CLO and consists predominantly of First Union originated bank loans. The expected return is 21.15%

On October 10, 2000, LJM2 invested \$6.5 million in OA Investments, a leveraged vehicle formed by DLJ that purchased \$50 million of new certificates in **Osprey Trust**, which is an indirect owner of approximately \$1.06 billion of Enron's merchant assets. The \$6.5 million investment will earn a current yield of 25.5%, and repayment of capital is primarily dependent on the sale of Enron stock and the sale of the assets in the merchant portfolio. In addition, Osprey equity holders are entitled to a 1.5% upside sharing in the value of the Trust. The current value of this sharing to LJM2 for this investment is \$5.0 million.

Realized Investments

On April 18, 2000, Enron and LJM2 formed the first **Raptor** vehicle. LJM2's investment and return on investment were significantly dependent on a 6 month put on Enron Corp. stock expected to expire on October 18, 2000. LJM2 agreed to settle the put early so that Enron could begin writing derivatives against the Raptor vehicle. Therefore, LJM2 received \$41 million in cash on September 7th, representing the return of and on capital. The realized IRR of this investment is currently 156% with a cash multiple of 1.37 times. However, there is the possibility of LJM2 receiving an additional \$30 million at the maturity of the investment in 3 years that could further increase the return.

On June 30, 2000, Enron and LJM2 formed the second Raptor vehicle, **Raptor II**. The economics were identical to the first Raptor, with LJM2's return on and of capital expected to come from a put on Enron stock due to expire on December 30th. LJM2 agreed to settle the put early so that Enron could begin writing derivatives against the vehicle. As a result, LJM2 received \$41 million in cash on October 4th, representing the

return of and on capital for the investment. The realized IRR of this investment is currently 248% with a cash multiple of 1.37 times. However, there is the possibility of LJM2 receiving an additional \$30 million at the maturity of the investment in 3 years that could further increase the return.

LJM2 received its return on and of capital on the **Raptor/TNPC** investment the day after the IPO of TNPC took place, which was October 5, 2000. LJM2 received \$39.5 million in cash which equals a realized IRR of 2450% and a cash multiple of 1.32 times. However, there is the possibility of LJM2 receiving an additional \$30 million at the maturity of the investment in 3 years that could further increase the return.

LJM2's investment in **Bargeco or Ebage, LLC** was sold to a third party investor and LJM2 received its return of and on capital from the sale. The realized IRR of this investment is 30% with a cash multiple of 1.09 times.

IPO of TNPC

TNPC concluded its IPO on October 5, 2000 at a share price of \$21 per share. This represents a market value for the company of approximately \$2.8 billion. LJM2 owns \$38 million of warrants purchased on July 12, 2000 in a private placement. That purchase valued the company at \$1 billion or \$10.80 per share. LJM2's warrants are subject to a six-month lock up period after the IPO.

Debt Facilities

The Chase revolver was fully drawn during September to fund investments. We are currently working on a new \$150 million debt facility with Dresdner Kleinwort Benson as agent and four other banks. This new facility will be used to repay outstandings under the Chase revolver (\$65 million) and the SE Acquisition Loan (\$14.14 million) and to fund new investments.

Co-Investment

LJM2 offered its third co-investment opportunity, Enron Net Works, to selected limited partners during September. The Enron Net Works structure is still under negotiation between Enron and other third party equity providers. LJM2 is still reviewing the Enron Net Works investment opportunity, but has not yet committed to make this investment.

Best regards,

Andrew S. Fastow
General Partner